REPORT TO:	Executive Board
DATE:	17 November 2016
REPORTING OFFICER:	Operational Director, Finance
PORTFOLIO:	Resources
SUBJECT:	Medium Term Financial Strategy 2017-2020
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for the period 2017/18 to 2019/20.

2.0 RECOMMENDATION: That

i) the Medium Term Financial Strategy be approved;

ii) the 2017/18 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;

iii) the Budget Strategy and Capital Strategy be approved;

iv) the Reserves and Balances Strategy be approved;

v) the award of Council Tax Support for 2017/18 remains at the 2016/17 level of 21.55%;

vi) the Council's 2017/18 Council Tax Support grant is not shared with the Parish Councils.

3.0 SUPPORTING INFORMATION

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on information that is currently available but there is information yet to be received, primarily from Government.

3.2 Although the projections in the Strategy must be treated with a considerable degree of caution, they clearly show there is need to make a significant level of savings over the next three years. This is an effect of the projections of public spending through to 2020 resulting from the 2015 Comprehensive Spending Review. The strategy takes into account the:

- Budget 2016 announced by the Chancellor of the Exchequer on 16 March 2016.
- Autumn Statement 2016 announced by the Chancellor of the Exchequer on 25 November 2016.
- Comprehensive Spending Review 2015 announced by the Chancellor of the Exchequer on 25th November 2015.
- Technical consultation on the future of New Homes Bonus dated December 2015.
- Announcement on schools revenue funding 2017/18 dated July 2016

3.3 The strategy provides initial guidance to the Council on its financial position into the medium term. The strategy identifies that revenue savings of approximately £11.7m, £11.7m, and £9.2m are required over the next three years. As a result a total of £33m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 21.6% of the gross expenditure budget. It continues to be a significant challenge to find sufficient savings over the medium term in order to balance the budget.

3.4 The Council's current financial position is sound. There are sufficient reserves and balances to meet existing known risks. In their report titled 'The Audit Findings for Halton Council', for the year ended 31March 2016, the External Auditor (Grant Thornton LLP) stated that the Council has:

- Managed its finances carefully through 2015/16 in order to produce a year-end outturn.
- Mitigated the risk of the financial challenge in setting future balanced budgets by having proper arrangements in place in all significant respects to ensure it delivered value for money in its use of resources.

3.5 In setting its revenue and capital budgets, the Council will need to have regard to its priority areas, namely:

- Healthy Halton
- Environment & Regeneration in Halton
- Children and Young People in Halton
- Employment Learning and Skills in Halton
- Safer Halton; and
- Corporate Effectiveness and Business Efficiency

3.6 These priorities are set out in more detail in the Council's Corporate Plan.

3.7 In summary, the Council's Medium Term Financial Strategy (MTFS) has the following objectives:

- To deliver a balanced and sustainable budget.
- To prioritise spending towards the Council's priority areas.
- To avoid excessive council tax increases.

- To achieve significant cashable efficiency gains.
- To protect front line services and vulnerable members of the community as far as possible.
- To deliver improved procurement.

Budget Strategy

3.8 The MTFS shows that in order to balance the budget over the medium term there is a requirement to make significant cost savings. In making these savings the Council will need to have in mind the objectives of the Medium Term Financial Strategy set out above.

3.9 The Council will identify further savings by:

- Progressing the Efficiency Programme.
- Reviewing the portfolio of land and other assets, including its use of buildings in accordance with the Accommodation Strategy.
- Continuing to drive improved procurement across the Council.
- Identifying opportunities to generate new or additional sources of income.
- Exploring opportunities for shared services and joint working with partner organisations.
- Offering staff voluntary redundancy or early retirement under the terms of the Staffing Protocol, where there is a clear benefit to the Council.
- Delivering services in more efficient and effective ways such as via greater use of technology.
- Reducing the cost of services either by reducing spend or increasing income.
- Utilising cost and performance benchmarking data from comparable authorities, to highlight potential areas where savings might be achieved.
- Considering alternative approaches to address high demand and high cost services.
- Using the Invest to Save Reserve to invest in initiatives which will delivery revenue budget savings through improved efficiency, reduced costs, and/or increased income.
- Continuing to facilitate economic development and regeneration across the Borough, particularly in light of the opportunities provided by the opening of the Mersey Gateway Bridge, in order to deliver new jobs, generate additional business rates income and additional council tax income.
- Reducing or ceasing the delivery of some lower priority services.

3.10 Over the years the Council has prided itself that compulsory redundancies have been minimised through the effective use of the Staffing Protocol developed with the Trade Unions. But given the scale of savings facing the Council, this will be difficult to achieve over the next three years.

Capital Strategy

3.11 The Asset Management Strategy sets out how the land and buildings that are in Council ownership or occupation are structured to support the Council's priorities. The capital programme is a major part of the Strategy.

3.12 The MTFS shows that there is sufficient resource to cover the cost of the current Capital Programme. However, the scope for the Council to generate capital receipts is becoming limited. Therefore, it is likely that proposals for new capital schemes will need to include their own funding.

3.13 Prudential borrowing remains an option for funding capital schemes, but the capital financing costs as a result of that borrowing will increase the Council's revenue budget gap and would therefore require greater revenue savings to be found by the relevant Directorate.

4.0 POLICY IMPLICATIONS

4.1 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

5.0 FINANCIAL IMPLICATIONS

5.1 The MTFS provides a guide to projected receivable funding resources over the three year term. The grant amounts included in the MTFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key objectives.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 The revenue budget and capital programme support the delivery and achievement of all the Council's priorities. Reductions of the magnitude identified within the Strategy are bound to have a negative impact upon the delivery of those priorities.

7.0 RISK ANALYSIS

7.1 The MTFS is a key part of the Council's financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no direct equality and diversity issues.

9.0 REASON FOR THE DECISION

9.1 To seek approval for the Council's Medium Term Financial Strategy for 2017/18 to 2019/20.

10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10.1 The alternative option of not maintaining a Medium Term Financial Strategy has been considered. However, this would not follow good financial management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

11.0 IMPLEMENTATION DATE

11.1 The Medium Term Financial Strategy 2017-20 will be implemented from 1st April 2017.

12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Formula Grant Settlement 2016/17	Financial Management Division, Kingsway House, Widnes	Steve Baker
Autumn Statement and Spending Review 2015	“ “	“ “
Technical Consultation on the Future of New Homes Bonus	“ “	“ “

MEDIUM TERM FINANCIAL STRATEGY

2017/18 to 2019/20

Finance Department
November 2016

1.0 INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending covering the period 2017/18 to 2019/20. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.

1.2 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other Strategies.

2.0 SPENDING REVIEW AND AUTUMN STATEMENT 2015

2.1 The 2015 Spending Review and Autumn Statement was announced by the Chancellor of the Exchequer on 25 November 2015. The main points impacting on Local Government finances included:

a) Local Government settlement funding will be cut by approximately 30% over the 4 years of the spending review, cuts will be weighted towards the earlier years. Revenue Support Grant will be gradually phased out over the course of this period.

b) An option for Councils to set a precept of an additional 2% over the council tax referendum threshold to help meet the increased needs of Adult Social Care. The option will be made available in each of the 4 years of the spending review.

c) An additional £1.5 billion being made available to local authorities within the Better Care Fund by 2019/20.

d) The ring-fence on Public Health spending will be maintained in 2017/18. Although Government will make savings in Public Health spending with annual real-term savings of 3.9% over the next five years.

e) There will be a consultation to the New Homes Bonus grant. The aim will be to "sharpen" the incentive to reward communities for additional homes whilst reducing the length of payments from 6 years to 4 years.

f) £250m to be provided nationally over the next 5 years to tackle potholes on local roads. In addition the roads maintenance capital budget will increase by £300m nationally.

g) An apprenticeship levy will be applied to larger employers from April 2017, the cost of which will be 0.5% of the employer's wage bill.

h) A national funding formula for schools will be introduced, the intention for which was a start date of April 2017 but has now been pushed back to April 2018.

3.0 Local Government Finance Settlement 2016/17

3.1 Government announced the 2016/17 final Local Government Finance Settlement on 08 February 2016. The Settlement Fund Assessment for the Council was £55.3m a reduction of £6.5m (10.5%) from the previous year.

3.2 Government also issued indicative Settlement Funding Assessment figures for the following three years which show a reduction of £16.7m (30%) over the four year period.

3.3 As part of the settlement announcement and included within the Council's spending power calculations for the next four years were amounts for the additional Better Care Fund payable from 2017/18 to 2019/20. Indicative figures show this will be worth £0.5m (17/18), £3.0m (18/19) and £5.2m (19/20) to the Council in each of the next three years. How the additional Better Care Fund will be funded; how the funds will be distributed and any additional responsibilities that come with the funds are very unclear at this stage. Therefore it is has been considered prudent to exclude these additional funds from the medium term forecast until further information is known.

3.4 Announced as part of the final 2016/17 settlement was the offer of a four year settlement to local government which included the following:

a) Minimum grant funding for a four year settlement period from 2016/17 to 2019/20. Includes the Settlement Funding Assessment but excludes New Homes Bonus and additional Better Care Funds.
b) If significant unforeseen financial changes occur over the period it may not be guaranteed. Those who don't accept the offer could shoulder a disproportionate share of unforeseen costs.
c) Councils must have signed up to the offer by 14 October 2016; in addition a council must publish a four year efficiency plan showing how efficiency will be increased and how the 4 year settlement offer will be beneficial.
d) On 15 September 2016, Executive Board approved necessary steps to be taken to accept the 4 year settlement offer and publish the associated Efficiency Plan.

4.0 Budget 2016

4.1 The Chancellor of the Exchequer made his 2016 budget announcement on 16 March 2016. A number of announcements were made on business rates including:

a) From April 2017 permanently doubling small business rate relief from 50% to 100%.
b) From April 2017 increasing the threshold for the standard business rate multiplier to a rateable value of £51,000.
c) From April 2020 the business rate multiplier will be linked to the CPI inflation rate rather than RPI. This will impact on local government finances as councils move towards 100% business rate retention.

5.0 New Homes Bonus Grant

5.1 A technical consultation was published on 17 December 2015 regarding the future of the New Homes Bonus (NHB) scheme. In 2016/17 the value of the grant to the Council was worth £2.677m.

5.2 The amount of NHB that each authority receives is dependent on several elements:

- The council tax band of each additional property built, multiplied by the national average council tax level from the preceding year i.e. the 2016/17 allocations are based upon the average Band D council tax set in 2015/16 at £1,484.

- A payment of £350 for each affordable home.

- Each additional annual allocation is paid for 6 years. The first payment was received in April 2011 with the current financial year being the last payment for additional properties built and brought back into use in 2010/11.

5.3 It is the Government's preferred option to create savings of at least £800m from NHB which can be used to partially fund the additional Better Care Fund. Whilst NHB will continue indefinitely the proposal is to change the scheme from 2017/18. The proposal is to:

a) Reduce the scheme from 6 to 4 years.
b) Reform the bonus amount awarded to reflect local authorities' performance on housing growth.
c) Keep with the announced funding amounts even if there was an increase in housing growth beyond that forecast.

5.4 Government haven't yet confirmed the final changes to the NHB scheme although the financial forecast assumes changes will be in line with the proposals from Government and includes reductions in NHB of £0.315m in 2017/18 and a further £0.627m in 2018/19.

6.0 COUNCIL TAX SUPPORT

6.1 Support funding for council tax discounts is funded from Government through a grant included in the settlement funding assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.

6.2 The Halton scheme uses as a basis the previous Regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children and claimants who are working is maintained. At the end of the existing support calculation, a reduction of 21.55% is made from every non pensioner award of benefit, to cover the shortfall in the Government grant funding for Halton's Scheme.

6.3 In 2013/14 the level of grant awarded was shown separately within the formula for Settlement Funding Assessment but from 2014/15 the grant is no longer separately identifiable. It is assumed the level of funding will reduce in line with the Council's overall Settlement Funding Assessment.

6.3 The MTFS assumes that the level of council tax support given to existing claimants will remain at the rate of 21.55% for the period of the MTFS. It also assumes that council tax support funding will not be shared with Parish Councils.

7.0 BUSINESS RATES RETENTION SCHEME

7.1 The Business Rates Retention scheme was introduced in April 2013, the intention of which was to reward councils for promoting economic development and generating future growth in business rates. At the time of the 2015/16 finance settlement the Government issued Halton with a retained (local share) business rates baseline of £25.3m. The intention is if Halton increases its local share of business rates above the baseline the increase is fully retained by the Council.

7.2 The mid-year forecast of retained business rates for 2016/17, indicates that by year-end there will be a surplus of £2.0m (excluding Police and Fire shares) relating to the Council within the Collection Fund. This has therefore been included in the forecast for 2017/18 as one-off funding (given the difficulties with predicting future business rates income) to help achieve a balanced budget position.

7.3 An estimate of the Council's share of retained business rates will be provided to DCLG in January 2017. It is currently forecast that the 2017/18 retained amount will be in line with the baseline figure. It is difficult to predict the level of business rates for future years due to the unpredictability of the economic climate and the high level of appeals received on the rateable value of properties.

7.4 On 05 October 2015 and subsequently confirmed by the Comprehensive Spending Review, the Chancellor of the Exchequer announced local government would gain new powers with regard to the retention of local business rates. He pledged that by the end of the current Parliament local government will be able to retain 100% of business rates compared to 49% it currently retains. The first consultation on how 100% business rate retention will develop was published in July 2016 and Halton as part of the Liverpool City Region and through Sigoma has contributed towards a consultation response. Further consultations will take place in 2017.

100% Business Rate Retention – Pilot Scheme

7.5 As part of the Liverpool City Region the Council has signed up to being a member of a pilot scheme for 100% business rate retention. The pilot scheme is due to operate from April 2017.

7.6 The pilot scheme will result in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG will be replaced by the additional business rates retained, in addition other grants (e.g. - Public Health) may also be replaced by the additional rates retained. A proposition paper on how the Liverpool City Region envisages the pilot scheme working was submitted to DCLG in September 2016, although at the time of preparing this report no response has been received from DCLG.

7.7 DCLG has confirmed the operation of the pilot scheme should be at no financial detriment to participating councils. Therefore for as long as the pilot scheme operates Halton will be no worse off financially than it would have been if it is was still operating under 49% rate retention.

7.8 Pending further clarity and confirmation on how the 100% rate retention pilot scheme will operate the financial forecast included within the MTFS is based on rates retention of 49% and receipt of Revenue Support Grant.

Business Rate Revaluation 2017

7.9 From April 2017 and as part of the revaluation cycle undertaken by the Valuation Office Agency (VOA) there will be changes to the rateable value of business properties within Halton. The rateable value of each property is applied to the business rate multiplier which results in the business rate amount each business pays on an annual basis, less any reliefs granted. As previously reported the Council currently retains 49% of business rates but from April 2017 will retain 100%.

7.10 Early indications show the rateable values for businesses within Halton will reduce by approximately 6.2% to £127.4m. This will result in a reduced amount of business rates collected by the Council in 2017/18 but should not have a financial impact. The loss in business rates will be replaced by an increase in top-up grant the Council receives as part of the settlement funding assessment.

7.11 Further details are still to be clarified on the final extent of the revaluation, therefore the forecast assumes business rate retention based on valuations for the current financial year rather than 2017.

8.0 EXTERNAL SUPPORT

Settlement Funding Assessment

8.1 In 2016/17 DCLG allocated Halton a Settlement Funding Assessment of £55.292m. This was made up of £22.251m Revenue Support Grant and £33.041m business rates baseline funding. The business rates baseline funding includes £25.530m as the business rates baseline and £7.511m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline ie. the Council's needs are greater than business rates it can generate. Prior to the LCR business rates retention pilot scheme the business rates baseline and funding level is set in the system until 2020 and uplifted each year by the Retail Price Index (RPI) only. As part of the pilot scheme and 2017 Revaluation it is expected the business rate baseline and top-up grant will be amended although at no cost to the Council.

8.2 Table 1 shows the expected Settlement Funding Assessment for the next three years based on the indicative settlement announcement published at the same time as the 2016/17 final grant settlement. This will form part of the 4 year grant settlement and whilst amounts may change as part of the pilot scheme and 2017 Revaluation there should be no impact on the total line.

Table 1 – Halton's Settlement Funding Assessment

	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	% change from 16/17 to 19/20
Revenue Support Grant	**22,251**	**16,790**	**13,082**	**9,339**	**-58.03%**
Baseline Funding Level consisting of:					
Business Rates Baseline	25,530	26,033	26,801	27,657	8.33%
Top Up Grant	7,511	7,659	7,885	8,137	8.33%
Total Baseline Funding Level	**33,041**	**33,692**	**34,686**	**35,794**	
Total Settlement Funding Assessment	**55,292**	**50,482**	**47,768**	**45,133**	**-18.37%**

Specific Grants

8.3 The level of specific revenue grants received by Halton in 2016/17 is approximately £150m, including Housing Benefit Subsidy of £53.2m, the Dedicated School Grant of £76.3m and Public Health Grant of £10.7m.

8.4 Halton was allocated a New Homes Bonus grant of £2.677m for 2016/17 which was used to balance the budget. Halton will receive additional allocations in each year of the scheme, based upon the number of new homes entering the council tax register in each year. The allocation for 2017/18 has not been announced although based on proposed changes to how the New Homes Bonus scheme operates it is forecast the Council will lose £0.987m over the three years of the financial forecast

8.5 Education Services Grant (ESG) was introduced in April 2013 as a means of passing funding to academy schools to fund central education services previously the responsibility of the Council but now the responsibility of academy schools. No new money was provided to fund the grant; instead it came from a top-slice from the Revenue Support Grant.

8.6 As part of the Schools National Funding Formula published in March 2016 the Government announced savings of approximately £600m would be made by removing the general element of ESG paid to councils and academies. Funding is due to be removed from September 2017, it is estimated the Council will lose £0.655m in 2017/18 and a further £0.468m in 2018/19. Government advises the reduction in grant will be met from efficiencies, removal of duties and amending regulations to allow local authorities to retain some of their maintained schools DSG to cover the statutory duties they carry out for maintained schools. It is expected the reduction in costs will be met from within services provided to schools and use of DSG and therefore excluded from the financial forecast.

8.7 In addition to the above, the retained element of ESG paid to fund central support for both maintained and academy schools will transfer to Dedicated Schools Grant funding from April 2017. The value of which to the Council in 2016/17 is £0.284m.

8.8 At the time of the 2016/17 final local government settlement, indicative allocations were shown for Public Health funding for 2017/18. These show a reduction of 2.5% to the 2016/17 grant allocation, a loss of £0.264m to the Council. Further reductions of 2.6% are expected to be applied in each of the following two years. The forecast assumes Public Health grant reductions will be contained within the overall spend for Public Health.

8.9 The forecast decrease in the level of formula and specific grant funding for Halton is shown in Table 2:

Table 2 – Reduction in Grant 2017/18 to 2019/20

	2017/18	2018/19	2019/20
	£000's	£000's	£000's
Reduction in Settlement Funding Assessment	-4,810	-2,714	-2,635
Decrease to New Homes Bonus	-315	-627	-45
Total Reduction	-5,125	-3,341	-2,680

8.10 The table shows that over the next three years Halton will lose £11.146m as part of the Settlement Funding Allocation and decrease to New Homes Bonus.

9.0 COUNCIL TAX FORECAST

9.1 For 2016/17 the Council Tax for a Band D property in Halton is £1,250.97 (excluding Police, Fire and Parish precepts), which will generate income of £41.217m.

9.2 When setting Council Tax levels it is clear that higher increases reduce the requirement to make savings. However, there are other factors that need to be considered when determining the appropriate increase in Council Tax. These factors include:

- Halton has the 4th lowest Council Tax level in the North West for 2016/17,
- Halton's 2016/17 Council Tax is £43.44 (3.5%) below the average Council Tax set by unitary councils in England.
- Inflation - the Consumer Price Index (CPI) as at September 2016 (latest available) is currently at 1.0% and the Retail Price Index (RPI) is at 2.0%.
- The spending review, welfare reforms and high needs, which are all placing pressure upon the Council's funding and demand for the Council's services.

9.3 The consultation on the 2017/18 Local Government finance settlement dated September 2016 detailed the Government's proposals for 2017/18 council tax referendum principles. The proposal is for a core referendum principle of 2% with a continuation of the adult social care precept of an additional 2%.

9.4 The 2017/18 Council Tax Base shows an increase of 870 Band D equivalent properties to a total of 33,818 assuming a collection rate of 97%. The increase in the Tax Base will generate an additional £1.088m of council tax income.

9.5 Table 3 below estimates the net amount of council tax income that will be produced for various percentage increases in Halton's Band D Council Tax for the next three years and assumes no change in council tax base beyond 2017/18.

Table 3 – Additional Council Tax Income 2017/18 to 2019/20

Projected Increases in Council Tax Income (£'000)	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
0%	-	-	-	-
1%	423	427	432	1,282
2%	846	863	880	2,589
3%	1,269	1,307	1,347	3,923
4%	1,692	1,760	1,830	5,282

9.6 Over the past few years the amount of council tax collected has been greater than forecast. As at 31 March 2016 there was a surplus of £3.327m of council tax held as part of the Collection Fund relating to the Council only (excluding Police and Fire). In 2016/17 £1.808m of this was used in balancing the budget. This strategy assumes that an amount of £1.519m will be released in 2017/18 to provide a one-off budget saving.

10.0 SPENDING FORECAST

10.1 The spending forecast provides an estimate of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect this represents an early estimate of the standstill budget requirement using the information that is currently available.

10.2 The scope of the forecast covers General Fund revenue activities that are financed through the Settlement Funding Assessment, Specific Grants and Council Tax.

10.3 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2016/17 budget. This adds £8.175m to the spending forecast for 2017/18.

10.4 Pay and price inflation is the biggest uncertainty in the spending forecast. As part of the Summer Budget 2015 it was announced that public sector pay awards would be restricted to 1% for four years from 2016/17. Agreed NJC pay rates for 2017/18 are included within the forecast.

10.5 The Consumer Price Index (CPI) for September 2016 – the index by which the Government measures inflation - stands at 1.0% which is below the Government's 2% target. The spending forecast assumes that many items of supplies and services expenditure will continue to be cash limited. In other cases the forecast assumes an appropriate rate that reflects current and estimated future prices.

10.6 The Council has a significant capital programme and the spending forecast includes the financing costs of the existing programme. The net revenue costs associated with the capital programme are included in the forecast at a reduction of £0.270m in 2017/18, followed by a reduction of £0.15m in 2018/19. The MTFS assumes that any new capital projects which are approved over the medium term will be self-funded through capital grant, capital receipts or will generate revenue savings to fund the cost of borrowing.

10.7 During the period of the MTFS, construction will finish and the operation of the Mersey Gateway bridge will commence. The Council will make a contribution towards the construction costs of the bridge funded by prudential borrowing, the financing costs of which will be met from future toll revenues and DfT grant. The Mersey Gateway Crossing Board will continue to manage the Mersey Gateway, their costs will be met from future toll revenues and DfT grant.

10.8 It is expected operation of the Mersey Gateway bridge will commence in October 2017 at which point the Council will have costs relating to service vehicles and staff crossing the bridge on Council business. The forecast provides for estimated annual costs of £0.150m to cover this.

10.9 A key assumption that has been used in constructing the MTFS is that total spending in the current year is kept within the overall budget. In particular it can be difficult to control 'demand led' budgets such as children in care and care in the community. In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty in interest rates, demand led budgets, impact of spending cuts and loss of income, the spending forecast includes a contingency of £1m in 2017/18, £1.5m in 2018/19 and £2.0m in 2019/20.

10.10 The Children and Families Department is continuing to experience significant budget pressures and for the current financial year is expected to be approximately £2.8m over budget by year-end. There is high demand for a number of services within the Department including residential placements, direct payments, out-of-borough fostering, special guardianship orders and in-house foster carer placements. Significant sums have been provided in previous years from contingency budgets and initiatives are in place to help reduce the overspend position. The MTFS also includes a further £0.5m over the next two years, to assist with bringing the budget and spending back into a balanced position.

10.11 The Chancellor stated in his 2015 Summer Budget that a new compulsory National Living Wage (NLW) for over 25s was to be introduced from April 2016. This was set at £7.20 per hour from April 2016 and will then rise each financial year until 2020 when it will reach £9.00. The forecast includes a amount of £0.500m to cover contract costs which will increase as a result of care providers meeting NLW rates.

10.12 The apprenticeship levy requires all employers with a pay bill over £3m each year to make an investment in apprenticeships. The levy charged will be at a rate of 0.5% of the total annual pay bill and is effective from 06 April 2017. The forecast includes an amount of £0.3m to cover the cost of the levy.

10.13 The Council has adopted an Apprenticeship Policy to offer younger people opportunities to study for relevant national qualifications at the same time as earning a salary and contributing effectively to the Borough`s economy. An annual fund of £0.2m will be created to help fund the cost of new apprentices, but only where other sources of funding have been exhausted.

10.14 The final staging date for the Council to auto-enrol employees into pension schemes is October 2017. It is likely that some staff who are not currently members of the Local Government Pension Scheme will decide to remain in the scheme when auto-enrolled. Based upon modelling of the age profile of relevant staff and experience of earlier auto-enrolment elsewhere, the forecast estimates a total additional pension contribution cost of £0.3m over 2017/18 and 2018/19.

10.15 From October 2016 the Council, along with Merseyside Recycling and Waste Authority (MRWA), will commence a Resource Recovery Contract (RRC) for treatment of waste disposal. The latest estimates of tonnages and costs indicate that costs may be higher in the early years of the contract, but savings are expected in later years. An additional £0.5m has therefore been included within the financial forecast to cover the initial cost increase.

10.16 Table 4 summarises the Spending Forecast.

Table 4 – General Fund Medium Term Standstill Spending Forecast

Increase in spending required to maintain existing policies and services	Year on year change (£'000)		
	2017/18	**2018/19**	**2019/20**
Full Year Effect of Previous Year Budget	8,175	5,386	1,653
Capital Programme	-270	-15	0
Pay and Price Inflation	2,241	2,226	2,386
Contingency	1,000	1,500	2,000
Mersey Gateway Vehicle Tolling	75	75	0
Children & Families Department Demand Pressures	250	250	0
National Living Wage – Contracts	500	500	500
Apprenticeship Levy and Policy	500	0	0
Waste Contract	500	0	0
Pension Auto Enrolment	150	150	0
Reduction to Pension Actuarial Costs	-80	0	0
TOTAL INCREASE	**13,041**	**10,072**	**6,539**

11.0 THE FUNDING GAP

11.1 At this level of spending there is a funding gap with the forecast level of resources. Table 5 demonstrates the forecast gap between spending and forecast resources at different levels of Council Tax increase.

Table 5: Funding Gap with a given % increase in Council Tax

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**
Increase in Spending Forecast	13,041	10,072	6,539
Reduction in Grant	5,125	3,341	2,680
Increase in Council Tax Base	-1,088	0	0
Council Tax Surplus	-1,519	-1,088	0
Business Rate Surplus	-2,039	0	0
Use of Reserves	-1,828	-565	0
Funding Gap Before Council Tax	**11,692**	**11,760**	**9,219**
Funding Gap After Council Tax Increase at Various Levels			
0%	11,692	11,760	9,219
1%	11,269	11,333	8,787
2%	10,846	10,897	8,339
3%	10,423	10,453	7,872
4%	10,000	10,000	7,389

11.2 The table shows that total savings of £11.7m are forecast to be needed to balance next year's budget after the use of one-off surplus council tax & business rate funds and use of reserves but before any increase to council tax.

11.3 The use of reserves and surplus council tax and business rate funds add to the deficit position for the following year and are included in the above table under 'Increase in Spending Forecast'

11.4 Further savings of £11.7m in 2018/19 and £9.2m in 2019/20, are required before any increase to Council Tax. The total funding gap is approximately £33m and represents 21.6% of the Council's gross 2016/17 expenditure budget.

11.5 This represents a significant challenge for the Council to balance its budget. As a result every aspect of the Council's budget needs to be scrutinised to identify potential savings. In addition, all opportunities will continue to be taken to generate additional income from charging for services, in order to reduce costs whilst maintaining levels of service delivery.

12.0 CAPITAL PROGRAMME

12.1 The Council's capital programme is updated regularly throughout the year. Table 6 summarises the fully funded capital programme.

Table 6 – Capital Programme

	2017/18 (£'000)	**2018/19 (£'000)**	**2019/20 (£'000)**
Spending	**128,250**	**68,271**	**8,593**
Funding:			
Prudential Borrowing	100,104	57,186	4,541
Grants	17,952	6,139	1,845
Revenue Financing	1,204	8	35
Capital Receipts	8,990	4,938	2,172
Total Funding	**128,250**	**68,271**	**8,593**

12.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

12.3 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.

12.4 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

13.0 RESERVES AND BALANCES

13.1 The Council's Reserves and Balances Strategy is attached in the Appendix. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

13.2 The level of balances and reserves will be reviewed as part of the budget and final accounts processes.

14.0 SCHOOLS BUDGET

14.1 Schools are fully funded by the Dedicated Schools Grant (DSG). The DSG is used to fund the Individual Schools Budget (ISB) which is allocated to schools by way of a formula and the central allocation in accordance with the revised Department for Education (DfE) guidelines.

14.2 The Schools Forum assesses and considers current and future arrangements and changes to schools funding, agreeing any formula changes following consultation with schools and academies.

14.3 In April 2013 schools received budgets based on the new funding formula which is the first step in a proposed move towards a National Funding Formula. It is expected the National Funding Formula will start to be implemented in April 2018 for primary and secondary schools.

14.4 Since April 2013 funding has been divided into three separate blocks within the Dedicated Schools Budget. These are the Schools Block, High Needs Block and Early Years Block. As part of the National Funding Formula a fourth block, the Centrally Retained Schools Block will be set up. All grant funding allocated by the EFA to the Schools Block will have to be allocated to schools through the formula.

14.5 Under the new funding guidelines, the amount of centrally held monies is tightly restricted for anything other than Early Years and High Needs provision. The proposals for the Early Years National Funding Formula put a restriction on the amount of funding that can be centrally retained. The Council is already within this target.

14.6 Funding for schools converting to academies is paid directly to the academy from the Education Funding Agency rather than going through the Council. Included within the grant paid to the schools are monies that previously funded educational support services which the Council provides. There is an element of financial risk to the Council in future years if other schools transfer to academy status which will lead to a shortfall in income to fund the expenditure for the central services.

14.7 Consultations on changes to the Schools Block, Centrally Retained Schools Block, Early Years Block and High Needs Block are due to be released during Autumn 2016. Some of these proposals, alongside the transfer of the Education Services Grant retained element to DSG have raised concerns regarding the financial sustainability of some services funded by DSG.

15.0 PARTNERSHIPS/JOINT WORKING/SHARED SERVICES

15.1 In 2015/16 the Government introduced a £3.8 billion fund to support the pooling of budgets for health and social care services, shared between the NHS and local authorities. This was intended to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. The Better Care Fund (BCF) provides an opportunity to improve the lives of some of the most vulnerable people in our society, to provide them with a better service and better quality of life. The Fund will be an important enabler for integrated care, acting as a significant catalyst for change.

15.2 The Council has been the host body in a Complex Care Pooled budget for a number of years. From 1st April 2015 the Better Care Fund was included within the pooled budget arrangements, working jointly with Halton Clinical Commissioning Group (HCCG). The value of the pooled budget for 2016/17 is approximately £48m.

15.3 The Council has established partnerships and shared service arrangements with a number of councils and other organisations over recent years for activities including, Children Services, Adult Social Services, Procurement and ICT Services. The Council is also part of the Liverpool City Region Combined Authority and the agreement with Government regarding devolution of powers and resources to the City Region. These arrangements should provide opportunities to achieve significant on-going savings from alternative ways of working and improved service delivery across the City Region.

16.0 EFFICIENCY STRATEGY

16.1 In order to maintain the level of performance across services delivered by the Council, it needs to find new and innovative ways to deliver services whilst making efficiency savings. The Council recognises the need to look more radically at the way it does business in order to achieve the level of savings that will protect key services.

16.2 The Council has published an Efficiency Plan linked to the four year settlement referred to in section 3.4.

16.3 The Council has an established Efficiency Programme in place to review services in a consistent way. This enables the identification of opportunities to enhance productivity, reduce costs, explore alternative delivery mechanisms and ensure that services are configured in the most appropriate way to meet the needs of service users.

16.4 The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This is strengthened and improved by the centrally coordinated procurement arrangements established via the Procurement Division. Procurement is considered a key mechanism for delivering efficiencies across the Council.

16.5 The Council's strategy regarding accommodation aims to rationalise the land and property portfolio and wherever possible to locate staff in Council owned buildings. Progress continues to be made with implementation of the strategy, which has and will continue to result in revenue budget savings during the period of the forecast.

17.0 MONITORING

17.1 Spending against each Department's revenue budget and capital programme is monitored and reported to the Policy and Performance Boards, alongside service outcomes, within the quarterly performance management reports. The Council-wide position is also reported quarterly to Executive Board.

18.0 SUMMARY

18.1 The 2015 Comprehensive Spending Review followed the approach Government have taken since 2010 in implementing the public spending austerity programme. This strategy highlights that considerable savings will be required over the next three years, and despite the Governments offer of a multi-year settlement there remains great uncertainty to the future funding of services.

18.2 The Business Rates Retention Scheme and localisation of Council Tax Support carry further risk to the funding available to the Council over the medium and longer term. Whilst there may be opportunity to take advantage of growth, there will be circumstances outside of the Council's control such as decline in the national economy which could be at the detriment of business rates and council tax collected.

18.3 Future levels of growth and savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council's scope to increase council tax.

18.4 The Medium Term Financial Strategy has been based on information that is currently available. Revisions will need to be made as new developments take place and new information becomes available.

APPENDIX

RESERVES AND BALANCES STRATEGY

1.0 INTRODUCTION

1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.

1.3 The Operational Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.

1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day to day operations.

2.0 GENERAL BALANCES

2.1 It has been the Council's policy to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time given the increasing demand-led pressures upon Children's Services and Adult Social Care. Close monitoring and control of budgets has meant this policy has been successfully achieved. As at 31 March 2016 the balance of the Councils general reserve was £5.4m.

3.0 PROVISIONS

Sundry Debtors

3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.

3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Full provision will therefore be made for all sundry debts outstanding for more than 43 days.

3.3 The bad debt provisions in respect of sundry debtors at 31 March 2016 totals £2.9m.

Council Tax / Business Rates (NNDR)

3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions in respect of Council Tax and NNDR debtors at 31 March 2016 totals £4.2m.

3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate and reductions in Council Tax Support payments and empty property discounts which may affect collection rates. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.

3.6 The Council is required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2016 totals £10.2m. Only 49% of this is attributable to the Council, 50% relates to Central Government with the remaining 1% attributable to Cheshire Fire Service. The treatment and funding of appeals is currently being considered nationally as part of the consultation regarding the implementation of 100% business rates retention from 2020 onwards. Once the outcome of this is known, the implications for future provisions for appeals can be determined.

4.0 INSURANCE RESERVE

4.1 The Council maintains an Insurance Reserve in order to meet the cost of current and future insurance claims which exceed the level of cover provided by the Council's insurers.

4.2 Changes in the insurance market have resulted in insurers seeking significant increases in premium from local authority clients. This consequently incentivises Councils to accept greater levels of self-insurance, in order to avoid increased costs and further pressure on revenue budgets. This approach was set out within the Council's Risk Financing and Insurance Strategy approved by Executive Board in April 2015.

4.3 In order to support the approach set out within the Strategy, the Insurance Reserve will be maintained at the level of total outstanding claims, in order to provide for both the cost of uninsured claims and the potential cost of future school claims. At 31 March 2016 the Insurance Reserve stood at £3.4m.

5.0 CAPITAL RESERVE

5.1 The Council holds a Capital Reserve to support the financing of the Council's capital programme which currently totals £5.0m and is based upon current capital funding needs.

6.0 INVEST TO SAVE FUND

6.1 The Council has an Invest to Save Fund which at 31 March 2016 stood at £0.7m. This is in order to provide one-off funding for proposals which will generate efficiencies and thereby create significant, permanent, revenue budget savings, whilst also supporting the achievement of the Council's corporate objectives.

7.0 TRANSFORMATION FUND

7.1 The Council has a Transformation Fund to fund the costs associated with efficiency reviews and structural changes required in order to deliver a balanced budget. At 31 March 2016 the fund's balance stood at £0.7m.